

September 18, 2023^(Revised)

Rashtriya Seva Samithi: Long-term rating upgraded to [ICRA]BBB- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loans	2.23	0.72	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long term – Fund-based CC	62.50	68.49	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long term – Unallocated	4.48	-	-
Total	69.21	69.21	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade factors in Rashtriya Seva Samithi's (RASS) longstanding track record of maintaining healthy profitability indicators in its microfinance operations and comfortable asset quality indicators. RASS has maintained its net profitability¹ consistently above 7.5% in its microfinance operations over the past five years, supported by steady interest margins and low operational and credit costs. The entity's asset quality position has recovered post the Covid-19 pandemic, with its delinquency levels remaining under control over the past 18 months (30+ days past due (dpd) stood at 0.3% as of March 2023 and 0.8% as of March 2022). ICRA expects the entity to sustain its asset quality and profitability metrics over the near-to-medium term. Further, supported by steady internal accruals and modest growth over the years, the entity is expected to maintain a comfortable capitalisation profile (gearing of 0.4 times as of March 2023 in the microfinance business and consolidated gearing of 0.5 times as of March 2022), going forward.

The rating, however, remains constrained by RASS' modest scale and geographical concentration of operations, with its loan book at Rs. 173.0 crore as of March 2023 focused on three districts, i.e. Chittoor and Tirupati (Andhra Pradesh; AP) and Tiruvallur (Tamil Nadu; TN). As it is not planning any significant expansion, the entity's geographical diversification is expected to remain restricted over the medium term.

Further, as RASS is a society registered under Societies Registration Act, 1860, it is not subject to commensurate regulatory supervision. However, it is a member of Sa-Dhan and adheres to some of its codes of conduct, which partially mitigates the risks associated with the microfinance operations. ICRA also notes that even though RASS' microfinance operations generate stable earnings surplus, its overall profitability and liquidity are susceptible to adverse movements in the receipt of grants and donations and expenses pertaining to the non-microfinance activities. Going forward, it would be crucial for RASS to improve its funding diversity, as the microfinance portfolio expands, and to maintain an adequate liquidity profile.

Key rating drivers and their description

Credit strengths

Comfortable asset quality indicators – RASS has demonstrated comfortable asset quality over the years, except during the pandemic-affected years when its delinquencies were elevated. Currently, its delinquency levels remain under control supported by steady collections, with its 30+dpd at 0.3% as of March 2023 vis-à-vis 0.8% as of March 2022 (8.6% in March 2021). The collection efficiency (including overdue collections and excluding prepayments) stood at ~97% in FY2023.

¹ Profit after tax / Average managed assets

RASS uses FIMO for its microfinance operations and captures both member and group-level data. The internal audit is conducted by a team of 10 members on an annual basis. While the loan appraisal system is adequate with the verification of the track record of internal savings and lending, the absence of a credit bureau check increases the risk of overleveraging of borrowers.

Healthy profitability metrics – The microfinance operations reported a healthy net surplus of Rs. 17.6 crore in FY2023 vis-à-vis Rs. 17.8 crore in FY2022 (Rs. 14.7 crore in FY2021), supported by good segmental operating efficiency (operating expenses/average managed assets (AMA) of 2.9% FY2023 and 2.8% in FY2022) and low credit costs (0.9% in FY2023 and 1.0% in FY2022). RASS' consolidated surplus was also healthy at Rs. 13.9 crore in FY2022 (Rs. 14.9 crore in FY2021), though it was lower on account of the expenditure incurred towards the various welfare activities and social programmes undertaken by the society. A significant shortfall in grants or donations could have an adverse impact on the profitability if higher expenses are incurred towards social/welfare activities.

Comfortable capitalisation profile – RASS' microfinance operations account for a predominant portion of the overall assets (~82% of the total assets in March 2022) with the remaining assets pertaining to the social welfare programmes conducted by the society. The microfinance business has a comfortable capitalisation profile with a gearing of 0.4 times as of March 2023 (0.5 times as of March 2022). Its net worth was Rs. 142.4 crore in March 2023 (Rs. 123.1 crore in March 2022). RASS expects to grow its microfinance portfolio to Rs. 200.0 crore in FY2024. The current capitalisation profile, along with internal accruals, would be comfortable for achieving the envisaged growth.

Established franchise and experience in microfinance operations – RASS, which was established in 1981 in Tirupati, commenced microfinance operations in 1989. The society conducts various welfare programmes including health, education, accommodation and vocational activities for children, women, farmers, physically challenged people and senior citizens. This has helped it build a member base of ~62,000 with ~53,000 active borrowers as of March 2023 under the microfinance programme. RASS' presence is, however, concentrated in three districts, i.e., Chittoor and Tirupati (AP) and Tiruvallur (TN).

RASS' 10-member board comprises personnel who are experienced in rural development and microfinance. The board is involved in the strategic decision-making process and meets every quarter and whenever required. The senior management team is headed by Mr. Venkataratnam, General Secretary, who has been associated with the society since its inception. However, there is scope for broad-basing the middle-and-lower-level management to support the envisaged portfolio growth.

Credit challenges

Modest scale and geographically concentrated operations – RASS' operations are currently modest with a microfinance portfolio of Rs. 173.0 crore as of March 2023. The portfolio declined marginally in FY2023 vis-à-vis the growth of 33% in FY2022 and the society expects to achieve a loan portfolio of about Rs. 200.0 crore by March 2024. RASS' microfinance portfolio is regionally concentrated in AP and TN, which accounted for 94% and 6%, respectively, as of March 2023. It has a presence via six branches across the districts of Chittoor and Tirupati (AP) and Thiruvallur (TN). The Tirupati branch accounted for about 60% of the portfolio as of March 2023. RASS' geographical concentration exposes it to regional risks and limits the scope for portfolio expansion.

Limited funding diversity – RASS' funding profile is limited to borrowings from a few banks and financial institutions (FIs). As of March 2023, it had borrowings from four lenders. However, the cost of average funds remained lower at 9.3% in FY2023 vis-à-vis 9.6% in FY2022. It receives grants and donations for other welfare activities. Going forward, the society's ability to secure funds from diverse sources at competitive rates would be critical for the growth of its microfinance operations.

Lack of regulatory supervision – As it is a society, RASS does not come under the purview of the Reserve Bank of India and is not required to follow the prudential norms applicable for non-banking financial companies-microfinance institutions (NBFC-MFIs). However, it is member of Sa-Dhan, one of the self-regulatory bodies for microfinance institutions (MFIs) and it adheres to some of Sa-Dhan's codes of conduct. This partially mitigates the risks associated with the microfinance operations.

Ability to manage risks associated with microfinance sector – The microfinance industry is prone to socio-political and operational risks, which could negatively impact the financial performance of entities in this sector. RASS’ ability to manage the risks arising out of the marginal profile of its borrowers, who have limited ability to absorb any income shocks, the unsecured nature of lending, and the political, communal and other risks in its portfolio, would be crucial. Additionally, in line with the industry, the entity’s ability to onboard borrowers with a good credit history, along with the recruitment and retention of employees, and the risks pertaining to borrower overleveraging, given their access to other funding sources, would be key monitorable issues.

Liquidity position: Adequate

RASS’ liquidity position is adequate with a cash and bank balance of Rs. 8.9 crore as of June 30, 2023 against total outflows of Rs. 6.0 crore (including operating expenses) during July-December 2023. The liquidity profile is also supported by sufficient collections in the microfinance segment and the regular receipt of donations and grants (~Rs. 28 crore in FY2022) for welfare activities. Further diversification of the funding profile of the society would support the growth of its microfinance portfolio.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if RASS is able to steadily improve its scale and geographical presence while keeping its asset quality under control.

Negative factors – ICRA could downgrade the rating or revise the outlook to Negative if the asset quality weakens, leading to pressure on the earnings performance and capitalisation profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA’s Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

RASS is a non-governmental organisation (NGO) with focus on welfare and developmental activities as well as microfinance lending. It was established in 1981 under the Societies Act, with its registered office in Tirupati (AP). RASS is implementing 27 different welfare and development programmes in AP, TN, Odisha, and Delhi, primarily targeted towards women and children development and welfare of elderly and specially challenged people. RASS receives funding support for its various welfare programmes through grants and donations from domestic as well as international sources.

RASS’ microfinance operations are concentrated in the Chittoor and Tirupati districts of AP and the Tiruvallur district of TN. Its microfinance loan portfolio stood at Rs. 173.0 crore as of March 2023 vis-à-vis Rs. 175.1 crore as on March 2022.

In FY2022, the society reported a net profit of Rs. 13.9 crore on operating income of Rs. 35.4 crore compared to Rs. 14.9 crore and Rs. 37.1 crore, respectively, in FY2021. The net profit of the microfinance business stood at Rs. 17.6 crore in FY2023 on a total asset base of Rs. 204.0 crore against Rs. 17.8 crore and Rs. 191.9 crore, respectively, in FY2022.

Key financial indicators (audited; IGAAP) – Microfinance business

	FY2021	FY2022	FY2023
Total income	26.9	30.6	31.0
Profit after tax	14.7	17.8	17.6
Net worth	104.0	123.1	142.4
Assets under management	131.7	175.1	173.0
Total managed assets	164.7	191.9	204.0
Return on managed assets	9.1%	10.0%	8.9%
Return on net worth	15.3%	15.7%	13.3%
Managed gearing (times)	0.6	0.5	0.4
Gross NPA	NA	NA	NA
Net NPA	NA	NA	NA
Solvency (Net NPA/Net worth)	NA	NA	NA
CRAR	NA	NA	NA

Source: RASS, Amount in Rs. crore

Key financial indicators (audited; adjusted*) – Consolidated

	FY2020	FY2021	FY2022
Total income	44.6	43.3	41.5
Profit after tax	11.1	14.9	13.9
Net worth	106.6	124.4	145.1
Assets under management	146.2	131.7	175.1
Total managed assets	180.9	189.0	219.0
Return on managed assets	6.3%	8.1%	6.8%
Return on net worth	11.0%	12.9%	10.3%
Managed gearing (times)	0.7	0.5	0.5
Gross NPA	NA	NA	NA
Net NPA	NA	NA	NA
Solvency (Net NPA/Net worth)	NA	NA	NA
CRAR	NA	NA	NA

Source: RASS, Amount in Rs. crore; *Adjustments made for ICRA's analysis

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Sep-18-2023	Jul-27-2022	Apr-07-2021	Oct-30-2020
1 Long term – Fund-based term loan	Long term	0.72	0.72	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Long term – Fund-based CC	Long term	68.49	68.49	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3 Long term – Unallocated	Long term	-	-	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term – Fund-based term loan	Simple
Long term – Fund-based CC	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
					(Rs. crore)	
NA	Term loan	Oct 05, 2018	NA	Oct 31, 2023	0.72	[ICRA]BBB- (Stable)
NA	Cash credit – 1	NA	NA	NA	40.00	[ICRA]BBB- (Stable)
NA	Cash credit – 2	NA	NA	NA	7.50	[ICRA]BBB- (Stable)
NA	Cash credit – 3	NA	NA	NA	20.00	[ICRA]BBB- (Stable)
NA	Cash credit – Unallocated	NA	NA	NA	0.99	[ICRA]BBB- (Stable)

Source: RASS

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – NA
Corrigendum

The rating rationale document dated September 18, 2023 has been corrected with revision as follows:

- i) Rating approach corrected to 'Standalone' under 'Analytical approach' in page no. 3

ANALYST CONTACTS

Karthik Srinivasan
+91-22-6114 3444
karthiks@icraindia.com

A M Karthik
+91-44-4596 4308
a.karthik@icraindia.com

R Srinivasan
+91-44-4596 4315
r.srinivasan@icraindia.com

Richardson Xavier J
+91-90-9487 7278
richardson.xavier@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



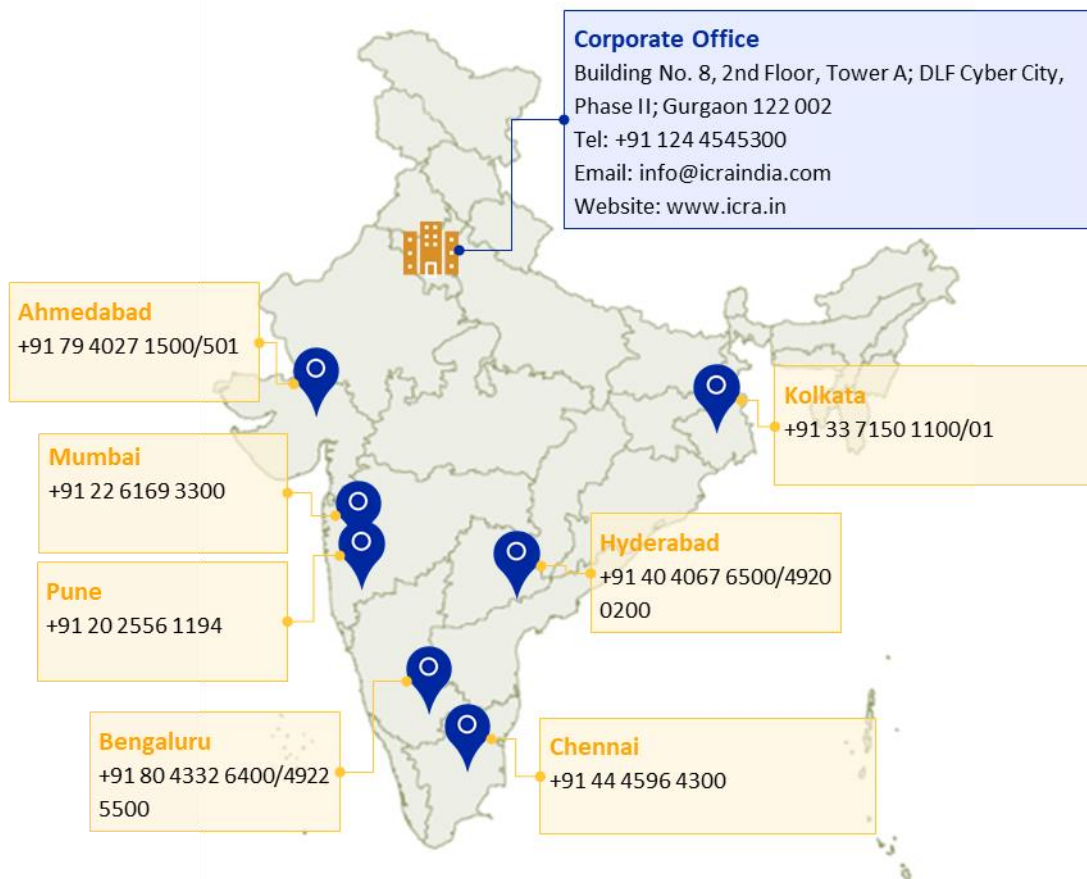
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.